

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**June 17, 2003**

The Capital Projects and Bond Oversight Committee met on Tuesday, June 17, 2003, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robert Leeper, Co-Chair; Representative Jodie Haydon, Co-Chair; Senators Tom Buford, Virgil Moore, and Jerry Rhoads; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Senator Leeper and Senator Rhoads joined the meeting by video conference from West Kentucky Technical College in Paducah.

Guests testifying before the committee: Sandra Woodley and Sherron Jackson, Council on Postsecondary Education; Bill Hintze, Governor's Office for Policy and Management; Armond Russ, Finance and Administration Cabinet; General Larry Barker, Department of Military Affairs; Mike Hulett, Kentucky State Police; Bill Pennell, Kentucky State University; Mary Paula Schuh, Northern Kentucky University; Roger Recktenwald, Kentucky Infrastructure Authority; and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Shawn Bowen.

Representative Haydon noted a correction to the minutes of the May 20, 2003, committee meeting needed to be made. Ms. Collins explained that on page 10 of the May minutes, in the second to the last paragraph, the fifth sentence should read Hopkins County instead of Ohio County.

Senator Buford made a motion that the May minutes be amended and approved. The motion was seconded by Representative Damron and approved by voice vote.

Representative Haydon called on Ms. Collins to review correspondence and information items included in members' folders. Ms. Collins said there were two correspondence items: follow-up correspondence from Sandy Williams, Kentucky Infrastructure Authority, in response to questions raised by the committee last month regarding a Fund A loan to the Boyd and Greenup Counties Sanitation District No. 1, and

the Kentucky Lottery Corporation's monthly report for April. She said there were two information items in members' folders: an executive order issued by the Governor on May 21 relating to clarification of certain capital projects that were included in the enacted budget and a staff update, including information on construction problems at the Bullitt County Judicial Center. Ms. Collins explained that the building columns at the Bullitt County Judicial Center were misaligned, and the Administrative Office of the Courts (AOC) required the contractor to realign the columns. Since this problem was discovered, the subcontractor has addressed the problems and state officials are satisfied with the work.

In response to a question by Representative Wayne, Ms. Collins said AOC has an oversight role on court projects, but the court projects are administered by the local governments. The local governments will own the buildings, and the state will pay a use allowance to cover the debt service.

Representative Damron said Garlan VanHook is a licensed registered architect with AOC, and he monitors closely the court facility projects. He said this responsibility was given to AOC through legislation which he and other members sponsored several years ago.

Representative Haydon then introduced Sandra Woodley, the new Vice President for Finance at the Council on Postsecondary Education (CPE), to discuss projects to be funded from the 2002-2004 agency bond pools. Ms. Woodley said at the May 19 CPE meeting, the Council approved allocation of the two agency bond pools: \$34.4 million was allocated for student housing fire safety projects and \$120.6 million was allocated to postsecondary institutions based on the fall 2002 enrollment with one exception: the Kentucky Community Technical College System did not request any agency bond authority. Representative Haydon said this item did not require further action by the committee.

Representative Haydon asked Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management (GOPM), and Armond Russ, Commissioner of the Department for Facilities Management, to present the monthly Finance and Administration Cabinet project report.

Mr. Hintze first discussed three unbudgeted federally-funded projects for the Department of Military Affairs. He reported a \$1,365,000 project to move the Operations Maintenance Shop (OMS) at Paducah to the Benton Armory. The OMS Shop will require construction of a building addition with a work bay and administrative and logistical areas.

The second unbudgeted project presented was construction of a new armory at Morehead. The Department of Military Affairs will move out of a 7,400 square foot

leased facility that costs \$29,600 annually. The new facility will contain 33,300 square feet for training and mobilization. The cost of the project is \$5,274,620.

The third unbudgeted project presented by Mr. Hintze was an addition/alteration at the Richmond Armory. The Department plans to build a 5,480 square foot addition and renovate 25,000 square feet of the Richmond Armory to provide better quarters for the 617<sup>th</sup> Military Police Company, which was recently activated. The cost of the project is \$826,410.

Representative Wayne asked about the source of funds for operation and maintenance of each of the facilities. Mr. Hintze said that operating and maintenance funds will be the responsibility of the state.

Representative Wayne asked if there is an estimate available of how much it will cost to operate these facilities. General Larry Barker, Department of Military Affairs, said any increase in operational costs at these facilities will be marginal.

Representative Wayne asked when the federal funds became available. General Barker said the funds were not available during budget deliberations.

In response to another question by Representative Wayne, Mr. Hintze said they will not proceed to construction on any of the three projects until they have received official notice from the federal government that the funds are available.

Representative Marcotte asked if there are any plans to replace or repair the roof at the Carrollton Armory. General Barker said at this time they do not plan to replace the roof at the Carrollton Armory, but he would check to see when a roof replacement is scheduled.

General Barker reiterated an earlier invitation for members to visit the Wendell Ford Training Center in Muhlenberg and suggested September would be a good time for that visit.

Mr. Hintze next discussed a \$1,153,000 project for the Kentucky State Police (KSP). He said the project scope is federally funded, and requires a “soft” match of \$288,250 from existing labor. The KSP plans to purchase a New Drivers Testing Program for the Commercial Drivers Licenses Scheduling and Scanning System to replace an antiquated system. Mr. Hintze said this project was not listed as part of KSP’s Six Year Capital Plan, but the agency’s plan will be amended to include this project.

In response to questions from Senator Buford, Mr. Hintze said the additional \$288,250 needed for the federal matching requirement can be from existing appropriations, and no additional money will be required. Mr. Mike Hulett, Fiscal

Director, KSP, said they will be allowed to use the salaries of current officers involved in the Commercial Drivers License (CDL) program as the match.

Senator Buford asked if the fees for the CDL program were considered part of the match for this project. Mr. Hulett said the CDL fees do not relate to this project, and no additional fees will be needed to sustain this project.

Representative Damron asked about the status of the procurement process for the new service weapons mandated by House Bill 372. Mr. Hulett said the KSP has submitted a check to Smith and Wesson for payment of previously-ordered weapons. He said they are waiting to see if Smith and Wesson will accept the check before proceeding with the purchase of new weapons from another gun manufacturer. Representative Damron said the intent of the legislation was for the cabinet and the agency to move quickly to get new and proper weapons in officers' hands. He emphasized this is a work safety issue. He asked Mr. Hintze to check with KSP and report back to the committee regarding the status of this purchase. Mr. Hintze said he would check into it.

Mr. Hintze next reported a \$113,000 privately funded scope increase for the Western Kentucky University (WKU) Journalism and Media Technology Building project. This project was authorized by the 1998 General Assembly for \$18,500,000. Mr. Hintze said the additional funds will be used to upgrade the regents meeting room in the new facility.

Senator Buford noted that bond companies had taken over management of both this project and the Boyd Regional Juvenile Detention Center. He asked if the contractors involved in those two projects, Correll Construction (Boyd Regional Detention Center) and Star Construction (WKU project), are working on any other state projects. Mr. Jim Abbott said both firms have some other projects that are substantially complete, and there are some warranty issues associated with those projects. He said Safeco, the surety company for Correll Construction, has taken over the Boyd County project, and it has been going well since the takeover; that project is now approximately 60% complete. The surety company for Star Construction, Acuity, has taken over the WKU project, and a management firm from Knoxville, Tennessee, Merit Construction Company, is handling the project. The project is approximately one month behind schedule.

Senator Buford asked if Star Construction and Correll Construction will be allowed to bid on other state construction contracts. Mr. Abbott said unless these companies can meet the state's financial (bonding) requirements, they will not be bidding on other state contracts.

Senator Buford asked if the bond companies will be responsible for any salaries and moneys that are owed. Mr. Abbott said there are no liens outstanding on either project, Boyd County or WKU.

Senator Buford asked when Star Construction became unable to complete the WKU project. Mr. Abbott said they had some indication of a lack of manpower at the site several months prior to the takeover. He said they were trying to nurse the project to final completion. He said the construction work was very satisfactory to WKU and the state.

In response to another question from Senator Buford, Mr. Abbott said the bonding company would be responsible for paying the suppliers and payroll taxes, and the state will not bear any responsibility for these charges.

Mr. Hintze reported a federally funded scope increase for the Kentucky State University (KSU) Aquaculture Classroom and Lab Facility project. This project's authorized scope is \$800,000. Mr. Hintze said when this project was bid in September 2002, it was clear that the project cost was substantially more than the project budget. The university then sought additional federal funds to reflect the actual cost of the project, and to make sure the project budget covers all necessary components, including equipment. Mr. Hintze said equipment costs were not part of the original authorization.

Next, Mr. Hintze reported that KSU plans to purchase a new mainframe computer at a cost of \$578,000. One-half of the cost of the mainframe will be from federal funds and the remaining one-half will be from the university's restricted funds. Mr. Hintze said IBM plans to discontinue its support for KSU's current mainframe software, effective July 1 of this year. Hardware support will be terminated by the end of the calendar year.

Representative Damron asked when the university found out that the software and hardware would be discontinued and why was this request not in the budget.

Mr. Bill Pennell, Chief Financial Officer, KSU, said the university received notification last spring that support for the software is to be terminated. At that point, the university researched various alternatives to the current mainframe configuration, and when it was determined that vendors would not support the software and the hardware, they began to look at other alternatives. Mr. Pennell said by the time the university realized they would need to replace the mainframe, the budget process was well underway. It was in March they received the notification that IBM would no longer support the computer system, and it was after the session ended that they found out there were no alternatives with the current hardware and software. Mr. Hintze said GOPM just recently learned of this.

In response to questions from Representative Damron, Mr. Pennell said the university has federal funds (Title III) for \$200,000; of that amount, \$107,000 will be used to purchase hardware. The Title III funds will last for five years. KSU is in the first year of that five-year program, so the university should have that level of funding over a five year period.

The university will enter into a lease-purchase agreement with IBM to finance the acquisition, including software and professional services over a five-year period. Representative Damron asked if the proposed financing plan has been analyzed to determine if IBM's rates are competitive to other financing alternatives. Mr. Hintze said he would look into it and let the committee know.

Representative Wayne asked if IBM would offer mainframe support while it is transitioning from the old to the new system. Mr. Pennell said they could probably get IBM to help during the transition phase.

Representative Wayne expressed concern about vendors stopping support of their products. Mr. Hintze said this happens frequently in the computer world, and this will be a ripe topic for discussion before the next biennial budget period. There are many systems on which the state depends for which support is or will be abruptly terminated with little lead time. He said the state is going to be facing this difficulty with a number of systems, and the replacement costs will be much larger than what is being presented today.

Representative Wayne asked if the state has enough buying power to require a company to service equipment it purchases for the life of the equipment. Mr. Hintze said the state has tremendous buying power and leverage in the marketplace. He said that question might be better directed towards Ms. Aldona Valicenti, the state's Chief Information Officer.

Representative Wayne asked if it would be better to delay action on this project until the committee has heard from Ms. Valicenti. Mr. Hintze said the university will be left in the lurch if their project is not approved. However, approving the project does not mean that answers to the questions raised today cannot be pursued.

Representative Wayne asked that Ms. Valicenti attend the committee's next meeting and discuss this subject. He said this may be an issue the committee has to address during the next legislative session, and it would be good to get some information on this subject now, and prepare legislation if necessary.

The last project Mr. Hintze discussed was a restricted fund scope increase for the Northern Kentucky University (NKU) Digital Telecommunications Systems project. This project was approved by the 2003 General Assembly at a scope of \$1,900,000. Mr. Hintze said NKU has decided to change the method of acquisition from cash to lease-purchase. He said this change in financing method will increase the cost of the project by \$231,000, and NKU is requesting a scope increase to cover the increased cost.

Senator Buford asked what the interest rate is for this project. Ms. Mary Paula Schuh, NKU, said the interest rate is 3.68% with financing through Fifth Third Bank. Ms. Schuh said NKU will pay the company a lump sum for the phone system, and will make loan payments to the bank.

Representative Damron said this is what he was alluding to earlier regarding interest rates from commercial banks. He said vendors sometimes offer a good deal on the purchase price, but then make a fairly substantial profit through the financing the project at a much higher interest rate. He said vendor financing is generally not the least cost financing mechanism available to municipalities and state entities.

In response to a question from Senator Buford, Ms. Schuh said the loan rate of 3.68% is a fixed rate for the life of the loan.

Senator Buford made a motion to approve all the project modifications submitted by the Finance and Administration Cabinet listed under New Business Item 6(B) on the agenda. The motion was seconded by Representative Marcotte and passed by roll call vote. (7 yes, 1 pass)

Representative Haydon said the next agenda item was the bond activity report from the Office of Financial Management. He asked Mr. Roger Recktenwald, Executive Director, Kentucky Infrastructure Authority (KIA), to report new items proposed for KIA assistance. Mr. Recktenwald presented one Fund C loan request in the amount of \$394,760 for the Meade County Water District. The proceeds will be used to acquire the existing Ekron water distribution system, consolidate the two water systems, and replace waterlines.

In response to a question from Senator Moore, Mr. Recktenwald said Dole Valley, a private utility, was not included in this project.

Mr. Recktenwald presented one Fund F loan request in the amount of \$4,000,000 for the City of Ashland, Boyd County. The proceeds will be used to upgrade and improve the water treatment plant.

Representative Damron made a motion to approve the Fund C loan for the Meade County Water District and the Fund F loan for the City of Ashland. The motion was seconded by Senator Moore and passed unanimously by roll call vote.

Mr. Recktenwald presented five new 2020 Account/Fund B Grants: City of Ashland – water treatment plant improvements, Phase II; North Shelby Water – waterline extension; Southeastern Water Association – waterline extension; Buffalo Trail Water Association – waterline extension; and Milton Water and Sewer Department – waterline extensions.

Representative Haydon asked Mr. Tom Howard, Deputy Executive Director, Office of Financial Management (OFM), to discuss the OFM report. Mr. Howard first presented four new bond issues: Murray State University Housing and Dining System Revenue Bonds, Series P, dated June 1, 2003, \$2,500,000; Morehead State University Housing and Dining System Revenue Bonds, Series R, dated June 1, 2003, \$4,285,000; University of Louisville Housing and Dining System Revenue Bonds, Series F, dated July 1, 2003, 6,375,000; and University of Louisville Consolidated Educational Buildings Revenue Bonds, Series N, dated June 1, 2003, \$23,080,000.

Senator Leeper made a motion to approve the four new bond issues listed under New Business Item D(3) on the agenda. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Mr. Howard said also included in members folders was a follow-up report for a previously-approved bond issue: Kentucky Higher Education Student Loan Corporation Student Loan Revenue Bonds, 2003 Series A, B, A-1, and A-2. Representative Haydon said the committee approved this issue at its March meeting, and no further action is required.

Mr. Howard then reported eight new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Breckinridge County; Christian County; Harlan County; Henderson County; Knott County; Providence Independent (Webster Co.); Pulaski County; and Spencer County.

Representative Marcotte made a motion to approve the school bond issues. The motion was seconded by Senator Moore and passed by roll call vote. Seven members voted affirmatively and Representative Damron abstained from the vote, citing a potential conflict of interest.

Representative Haydon said there were six locally-funded school bond issues submitted to the committee for review this month: Grant County; Hardin County; Knott County; Letcher County; Madison County; and Somerset Independent (Pulaski Co.). He said all disclosure information has been filed, and no further action on the bond issues is required.

Representative Haydon said the committee will hold its next meeting on July 15.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded by Representative Wayne. The meeting adjourned at 2:15 p.m.